

May 5, 2004

Deputy Assistant Secretary for Federal Finance Timothy S. Bitsberger
May 2004 Quarterly Refunding Statement

Treasury is announcing the following changes to the issuance calendar:

- A new 5-year TIPS with the first auction in October 2004;
- A new 20-year TIPS with the first auction in July 2004.

Treasury is also considering canceling the regular reopening of nominal 10-year securities. We will provide one quarter notice before any change.

Details of the May Refunding

We are offering \$54.0 billion of notes to refund approximately \$32.8 billion of privately held securities and Government account holdings maturing or called on May 15, raising approximately \$21.2 billion. The securities are:

- A new 3-year note in the amount of \$24 billion, maturing May 15, 2007;
- A new 5-year note in the amount of \$15 billion, maturing May 15, 2009;
- A new 10-year note in the amount of \$15 billion, maturing May 15, 2014.

These securities will be auctioned on a yield basis at 1:00 PM Eastern time on Tuesday, May 11, Wednesday, May 12, and Thursday, May 13, respectively. All of these auctions will settle on Monday, May 17. The balance of our financing requirements will be met with weekly bills, monthly 2-year and 5-year notes, the June 10-year note reopening, and the July 10-year and 20-year TIPS. Treasury is also likely to issue cash management bills in early June and July.

5-year TIPS and 20-year TIPS

Treasury is adding both a 5-year TIPS and a 20-year TIPS to its auction calendar. Each security will be auctioned semiannually. The 5-year TIPS will be auctioned on an April/October cycle and the 20-year TIPS will be on a January/July cycle. The first issues of these securities in July and October of this year will have an initial maturity a half year longer than usual and will be reopened twice. Accordingly, the 20-year TIPS issued in July 2004 will have an initial maturity of 20½-years and will be reopened in January 2005 and July 2005. Similarly, the 5-year TIPS issued in October 2004 will have an initial maturity of 5½-years and will be reopened in April 2005 and October 2005. Starting with the 20-year TIPS issued in January 2006 and the 5-year TIPS issued in April 2006, these securities will be reopened only once six months after the original issue.

TIPS Auction and Maturity Dates

The new 5-year TIPS and 20-year TIPS will be auctioned in the second half of the month and settle on the last business day of the month. However, these TIPS issues will continue to have mid-month maturity dates (*i.e.*, April 15th for the 5-year TIPS and January 15th for the 20-year TIPS). Investors who purchase these securities at auction will be required to pay Treasury the interest accrued between the 15th of the month and the settlement date. The auction schedule for 10-year TIPS is not changing; 10-year TIPS will continue to be auctioned in the first part of the month and settle on the 15th of the month.

Zero Bound on TIPS Coupons

In the event that the high accepted yield in an auction of a new TIPS issue is negative, the security will have a zero coupon, and Treasury will issue the security at a premium above the par value. Investors will receive the inflation-adjusted par amount at maturity.

Cessation of the Long Term Treasury Rate

In Treasury's February 2002 Quarterly Refunding statement, we announced that publication of a 30-year Constant Maturity Treasury (CMT) Yield was being discontinued and that a "long term yield" average based on the bid yields on all Treasury bonds with 25 or more years remaining to maturity (LT>25 average) would be published in place of the 30-year CMT. We also announced the publication of an "extrapolation factor" to allow users to calculate a proxy estimate for a 30-year yield. Because there are currently only three (3) bonds outstanding with more than 25 years to maturity, we are ceasing the publication of the LT>25 average. We will continue to publish an extrapolation factor, but as of June 1, 2004 that factor will be based on an extrapolation from the 20-year yield curve point. For further details on this, please see <http://www.treas.gov/offices/domestic-finance/debt-management/interest-rate/index.html>

Other Policy Issues under Consideration

Nominal 10-year Note Reopening Policy

The introduction of two new TIP securities accompanied with smaller than anticipated borrowing needs for this year and forecasts for declining deficits going forward has led Treasury to reconsider its nominal 10-year note reopening policy.

State and Local Government Securities (SLGS) Proposed Regulatory Changes

This summer Treasury will announce proposed regulatory changes for dealing with trading activities that we view are against the spirit and purpose of the SLGS program and are detrimental to efficient Treasury financing. The purpose of the SLGS program is "to assist tax-exempt issuers with complying with applicable provisions of the Internal

Revenue System code that apply to tax exempt issuers". It is not, nor was it ever, intended to be a trading vehicle for tax-exempt issuers to capitalize on the inherent inefficiencies and arbitrage opportunities that are artifacts of the non-marketable SLGS program, and Treasury considers its use in such manner to be inappropriate. Treasury will consider any and all comments from market participants regarding the proposed rule, before publishing a final rule.

Six-Decimal Price Awards in Treasury Auctions

In the February 2004 Quarterly Refunding Statement, Treasury announced its intentions to compute price awards in auctions to six decimal places per hundred. This change is expected to take place in the second half of this year.

In an effort to make this transition as smooth as possible for those who purchase Treasury securities, we have made the following 6-decimal pricing calculation formulas available at <http://www.publicdebt.treas.gov/of/ofcalc6decimal.htm> . Institutions are encouraged to use the formulas for internal testing to determine whether or not changes to their back-office systems will be necessary. Any questions regarding this testing should be directed to BPD Office of Financing at (202) 691-3550.

Changing Limits on Non-competitive Bill Awards

The limit on non-competitive awards is \$1 million for bill auctions and \$5 million for coupon auctions. The non-competitive award limit on coupons auctions was raised in 1991 in an effort to increase participation in Treasury auctions and reduce ownership concentrations. Treasury is studying raising the limit of noncompetitive awards in bill auctions from \$1 million to \$5 million. We will announce a decision at the August refunding.

The next quarterly refunding announcement will take place on Wednesday, August 4, 2004. Please send comments and suggestions on these subjects or others relating to debt management to debt.management@do.treas.gov.